

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 /141 W
-----037649 301037Z /11

R 301015Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9285
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
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USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 08978, MARCH 15, 1978
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1. SUMMARY: AS USUAL, FINANCIAL MARKETS HAVE REACTED
AHEAD OF THE ECONOMY TO POLITICAL DEVELOPMENTS. THE
SITUATION IN THE MONEY MARKET HAS BEEN LITERALLY
REVERSED SINCE ELECTION DAY. INTEREST RATES DECLINED,
AND DOMESTIC LOANS REPLACED FOREIGN BORROWING. THE
STOCK EXCHANGE ALMOST CONSOLIDATED ITS "ELECTION GAINS"

AND TURNOVER ON THE GOLD MARKET RETURNED TO "NORMAL".
MEANWHILE, IT IS FAR TOO EARLY TO TELL IF A MORE OR
LESS SPONTANEOUS UPTURN IN THE ECONOMY WILL OCCUR IN
THE WAKE OF THE DRAMATICALLY IMPROVED SITUATION IN
THE FINANCIAL MARKETS. IT WILL TAKE ABOUT A MONTH
BEFORE EVEN PRELIMINARY EVIDENCE WILL BE AVAILABLE.
HOWEVER, THE IMPROVEMENT IN BUSINESS CONFIDENCE
IS EVIDENT AND SOME PICK-UP IN ACTIVITY OVER THE LOW
LEVELS OF THE PAST TWO QUARTERS IS WIDELY EXPECTED.

OTHER ECONOMIC INDICATORS (WHICH MAINLY CONCERN THE
PERIOD PRECEDING THE ELECTIONS) SHOW AN IMPROVEMENT
IN THE FOREIGN TRADE BALANCE, AN INCREASE IN JANUARY
OF INDUSTRIAL PRODUCTION FROM THE EXTRAORDINARY LOW
DECEMBER LEVEL, AN INCREASE IN UNEMPLOYMENT IN
FEBRUARY, AND AN ACCELERATION IN PRICE RISES IN
FEBRUARY. THE SHIPWRECK OF AN OIL TANKER OFF THE
FRENCH COAST OF BRITTANY WITH THE ENSUING SPILL OF
MORE THAN 200,000 TONS OF OIL HAS RECEIVED NATIONWIDE
ATTENTION, IS VERY DAMAGING TO THE ECONOMY OF THE
REGION, AND ALMOST CERTAINLY WILL HAVE INTERNATIONAL
REPERCUSSIONS FOR OIL TRANSPORT: THE SHIP WAS
OPERATED BY AMOCO UNDER LIBERIAN FLAG WITH AN ITALIAN
CREW CARRYING OIL OWNED BY SHELL. END SUMMARY

2. CONSOLIDATION OF PARIS STOCK EXCHANGE
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THE INVESTOR EUPHORIA WITNESSED ON THE PARIS STOCK
EXCHANGE WHEN STOCKS ROSE BY AN AVERAGE OF 12.3 PERCENT
IN THE WEEK FROM MONDAY, MARCH 13, TO MONDAY, MARCH 20,
AND 22.1 PERCENT FROM MARCH 10 TO MARCH 20 GAVE WAY TO
A CONSOLIDATION AND PROFIT-TAKING PROCESS: AND ON
TUESDAY, MARCH 28 (MARCH 27, EASTER MONDAY, WAS A PUBLIC
HOLIDAY IN FRANCE) WERE 3 PERCENT BELOW MARCH 20 AND
18.5 PERCENT ABOVE MARCH 10.

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CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /141 W
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R 301015Z MAR 78
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INFO AMEMBASSY BONN
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AT THE SAME TIME PARIS GOLD PRICES FOLLOWED THE
INTERNATIONAL TREND, BUT THE VOLUME RETURNED TO
"NORMAL" (F 6.2 MILLION ON MARCH 28 AT \$184.42
PER OUNCE).

THE INVESTOR PREFERENCE OBVIOUSLY SWEEPED TO THE BOND
MARKET WHERE NEW ISSUES ARE READILY ABSORBED (SEE
FOLLOWING ITEM).

3. THE PATTERN OF BORROWING HAS CHANGED.
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CALL MONEY RATES, WHICH HAD BEEN RAISED TO 10-1/2
PERCENT PRIOR TO ELECTIONS, WERE CUT, IN STAGES, TO
9 PERCENT. ACCORDING TO MARKET SOURCES, THREE
AND SIX MONTH MONEY IS ALSO READILY AVAILABLE AND
OFFERED AT 9 OR 9-1/16 PERCENT. THESE RATES
ARE EXPECTED TO DECREASE FURTHER IN SMALL, SUCCESSIVE
STAGES.

ON WEDNESDAY, AFTER ELECTION SUNDAY, A F 1 BILLION

DOMESTIC LOAN AT 11 PERCENT WAS PUT ON THE MARKET BY THE CAISSE NATIONALE DES TELECOMMUNICATIONS. IT WAS FULLY SUBSCRIBED ON THE SAME DAY. IT WAS FOLLOWED BY A SIMILAR FIFTEEN YEAR, 11 PERCENT ISSUE OF F 2-1/2 BILLION BY THE CREDIT AGRICOLE, WHICH IS ALSO WELL RECEIVED BY THE PUBLIC AND INSTITUTIONAL INVESTORS. OTHER LOANS--ALTHOUGH IN SMALLER AMOUNTS, FROM THE LOW RENTAL HOUSING ORGANISM AND BANQUE HERVET--HAVE ALREADY BEEN ANNOUNCED FOR NEXT WEEK. AT THE SAME TIME, NO RECORD OF FOREIGN BORROWING WAS NOTED IN THE PRESS DURING THE REPORTING PERIOD.

4. UNEMPLOYMENT INCREASES SLIGHTLY

ACCORDING TO OFFICIAL STATISTICS THE NUMBER OF JOB SEEKERS (CORRECTED FOR SEASONAL VARIATIONS) WAS 1,042.2 THOUSAND IN FEBRUARY, UP FROM 1,023.2 IN JANUARY (5.0 PERCENT UNEMPLOYMENT RATE). THESE DATA ARE NOT COMPARABLE WITH EARLIER PERIODS DUE TO MODIFICATION IN UNEMPLOYMENT REGISTRATION (SEE ITEM 7, PARIS 8978).

ACCORDING TO INSEE THE FOLLOWING DATA ARE ROUGHLY UNCLASSIFIED

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COMPARABLE: DEC 1U54, JAN 1063, FEB 1090 (5.3 PERCENT UNEMPLOYMENT RATE). IN ORDER TO PREVENT UNEMPLOYMENT TO INCREASE FURTHER THIS COMING SUMMER, IT IS NOW CONSIDERED LIKELY THAT THE GOVERNMENT WILL EXTEND THE SPECIAL MEASURES, INITIALLY SCHEDULED FOR SIX MONTHS, TO ENCOURAGE EMPLOYMENT OF THE YOUNG.

MOREOVER, IT IS FEARED THAT NOW THAT THE ELECTIONS ARE OVER A NUMBER OF ENTERPRISES WILL RESORT TO ECONOMIC LAYOFFS WHICH HAD BEEN DELAYED FOR SOME TIME. THIS INCLUDES THE AILING BOUSSAC GROUP (11,500 WAGE EARNERS).

5. INDUSTRIAL PRODUCTION IN JANUARY

THE SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX (1970 100), EXCLUDING BUILDING, ROSE FROM 122 IN DECEMBER TO 127 IN JANUARY. THIS COMPARES WITH 129 IN JANUARY 1977.

CALCULATED AS A THREE MONTH MOVING AVERAGE, THIS INDEX ILLUSTRATES THE RECENT STAGNATION OF THE FRENCH ECONOMY:

JUNE-JULY-AUGUST	126
JULY-AUGUST-SEPTEMBER	125
AUGUST-SEPTEMBER-OCTOBER	124

SEPTEMBER-OCTOBER-NOVEMBER 125
OCTOBER-NOVEMBER-DECEMBER 124
NOVEMBER-DECEMBER-JANUARY 125

THERE IS NO MAJOR GROUP, EXCEPT FOR ELECTRICITY, WHERE
PRODUCTION LEVELS EXCEED THOSE OF JANUARY 1977.

6. BANK OF FRANCE SURVEY SHOWS NOT MUCH CHANGE

ACCORDING TO THE LATEST ECONOMIC SURVEY PUBLISHED
BY THE BANK OF FRANCE, PRODUCTION LEVELS IN FEBRUARY WERE
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PRACTICALLY THE SAME AS IN JANUARY. INTERMEDIARY GOODS
IMPROVED SLIGHTLY, AND SHIPMENTS FOR EXPORT ACCELERATED.
ALTOGETHER, THE BANK OF FRANCE NOTED AN INCREASE IN

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CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 /141 W
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R 301015Z MAR 78
FM AMEMBASSY PARIS
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AMEMBASSY BRUSSELS
AMEMBASSY LONDON
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DOMESTIC AND, PARTICULARLY, FOREIGN DEMAND BUT ASCRIBES THIS IN PART TO THE FACT THAT BUYERS WERE EAGER TO PUT THEIR ORDERS IN BEFORE MARCH 1, THE DATE WHEN PRICE INCREASES WERE TO BE TOLERATED AGAIN FOLLOWING THE "STANDSTILL" AGREEMENTS.

7. RISE IN CONSUMER PRICES ACCELERATES

BEGINNING IN FEBRUARY PRICES WERE BOUND TO INCREASE AT A HIGHER SPEED THAN IN THE PRECEDING MONTHS (0.5 PERCENT IN JANUARY AND ONLY 0.3 PERCENT IN DECEMBER). THE UNCLASSIFIED

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FEBRUARY INDEX ROSE BY 0.7 PERCENT (9.2 PERCENT ABOVE 1977), REFLECTING THE INCREASE IN SERVICES BY 1 PERCENT (8.8 ABOVE FEB 77), MANUFACTURED PRODUCTS (PLUS 0.7 PERCENT AND 8.3 ABOVE FEB 77), AND FOOD PRODUCTS (PLUS 0.6 AND 11.0 ABOVE FEB 77). THE INCREASE IN THE FOOD GROUP REFLECTS A RISE IN MILK AND DAIRY PRODUCTS AS THE SPECIAL BUTTER SALES ENDED. A NUMBER OF SERVICES ALSO INCREASED. PRICES ARE EXPECTED TO RISE AT LEAST IN THE SAME ORDER OF MAGNITUDE IN MARCH AND APRIL. THE APRIL INDEX, IN PARTICULAR, WILL INCLUDE SUBSTANTIAL INCREASES SCHEDULED IN PUBLIC SERVICES (RAILROADS UP 15 PERCENT, GAS AND ELECTRICITY UP 11--12 PERCENT). ALSO, BEGINNING IN FEBRUARY THE PERIOD OF VOLUNTARY PRICE RESTRAINT OF A LARGE NUMBER OF MANUFACTURERS WAS ENDED; AND NUMEROUS INCREASES OF TWO TO THREE PERCENT AT THE PRODUCTION LEVEL ARE BEING OBSERVED. IN SUM, AS SO OFTEN IN THE PAST, A NEW "OPERATION VERITE" (RETURN TO TRUE PRICE LEVELS) IS IN THE OFFING. AND THE SPOKESMAN OF THE FRENCH PATRONAT ALREADY HAS CALLED FOR MORE LIBERTY IN THE PRICE FIELD.

8. FOREIGN TRADE RETURNED TO SURPLUS IN FEBRUARY

THE MONTH OF FEBRUARY SHOWED A SLIGHTLY FAVORABLE FOREIGN TRADE BALANCE, SEASONALLY ADJUSTED OR NOT, AS EXPORTS INCREASED WHILE IMPORTS REMAINED UNCHANGED FROM JANUARY.

BILLIONS OF FRANCS

PERCENT CHANGE

FEB. JAN. FEB. FROM
1978 1978 1977 JAN.78 FEB.77

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IMPORTS FOB 28.6 28.6 27.1 #0.2 # 5.7
EXPORTS FOB 28.8 25.9 25.5 #11.3 #12.9
BALANCE #0.2 -2.7 -1.6
PERCENT OF IMPORTS
COVERED BY EXPORTS 100.6 90.6 94.2

CORRECTED FOR SEASONAL VARIATIONS

IMPORTS FOB 28.5 28.7 27.0 -0.6 # 5.7
EXPORTS FOB 28.6 26.9 25.4 #6.5 #12.8
BALANCE #0.1 -1.8 -1.6
PERCENT OF IMPORTS
COVERED BY EXPORTS 100.2 93.5 94.0

IN COMMENTING ON THESE DATA, FOREIGN TRADE MINISTER ROSSI POINTED OUT THAT EXPORTS TO THE US WERE PARTICULARLY HIGH IN FEBRUARY (UP 35 PERCENT) AND ALSO TO GERMANY (UP 19 PERCENT). TRADE IN FOOD AND AGRICULTURAL ITEMS SHOWED A SURPLUS OF F 600 MILLION IN FEBRUARY, WHILE IN JANUARY THEY SHOWED A DEFICIT. THIS DEVELOPMENT, HOWEVER, WAS LARGELY DUE TO ADJUSTMENTS IN MONETARY COMPENSATORY PAYMENTS, AS STATED BY THE MINISTER (SEE PARIS 7289, ITEM 3).

9. BANK OF FRANCE CAUTIOUS ON GROWTH PROSPECTS

THE BANK OF FRANCE MADE EVERY EFFORT TO SUBMIT ITS ANNUAL REPORT TO THE FRENCH PRESIDENT EARLY THIS YEAR--I.E., BEFORE THE LEGISLATIVE ELECTIONS. AFTER EXPRESSING ITS SATISFACTION WITH RECENT ECONOMIC POLICY AND PERFORMANCE REGARDING MONEY SUPPLY, CREDDIT RESTRAINT, PRICE AND WAGE POLICY, LIMITING THE RISE OF UNEMPLOYMENT IN SPITE OF A MERE 2.5 PERCENT ECONOMIC GROWTH (SINCE REVISED TO 2.9 PERCENT BY INSEE), THE

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REPORT MADE IT CLEAR, WITHOUT EXPLICITLY SAYING SO,
THAT THE COMMON PROGRAM OF THE LEFT WOULD DESTABILIZE
THE FRENCH ECONOMY. BEYOND THAT, THE REPORT STRESSES
THE NEED TO MAINTAIN INTERNAL AND EXTERNAL EQUILIBRIUM
IN ORDER TO ESTABLISH A SOUND BASIS FOR FUTURE ECONOMIC
GROWTH AND THE NARROW ROOM FOR MANEUVER IN EXPANDING
THE ECONOMY, GIVEN BALANCE OF PAYMENTS AND INFLATIONARY
CONSTRAINTS.

10. OTHER REPORTS SUBMITTED DURING THE PERIOD:

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PARIS

TELEGRAMS

10258 INVESTMENT APPLICATION OF AUTOMATIC DATA PROCESSING

10174 CHANGES IN AUTONOMOUS SHORT-TERM CAPITAL AND

ERRORS AND OMISSIONS IN JANUARY AND FEBRUARY

10140 THE GOF WEIGHS THE TECHNICAL ASPECTS OF

ECONOMIC POLICY

10133 GOF FOREX POLICY CHANGES

9197 PROPOSED INCREASE IN IMF/IBRD STAFF SALARIES

8769 INTER-AMERICAN DEVELOPMENT BANK ANNUAL MEETING

AIRGRAMS

A-77 AND A-85 FRENCH FOREIGN EXCHANGE HOLDINGS

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